



LETTER FROM THE CHAIRMAN

The Public Employee Retirement Administration Commission is pleased to release this 2016 Annual Report reviewing the status of the Massachusetts public pension plans.

The investment performance of the systems detailed in this Report generally tracked that of pension plans throughout the nation. Although in 2016, Massachusetts' returns ranged from -46% to 10.63%, most systems achieved returns between 8.00% and 9.00%. Most importantly, long range performance with just two exceptions, exceeded 7.50% and, for thirty systems, equaled or exceeded 9.00%. And, we are pleased to note, that no system is deemed to be "underperforming" as that term is defined under Chapter 32.

These results are important because of the increased focus on public pension funds both in Massachusetts and nationally. It appears that the scrutiny has intensified with little attempt to distinguish between systems in various jurisdictions and, in fact, within jurisdictions. It seems that some attribute every governmental fiscal crisis from the Puerto Rico bankruptcy to the Houston pension system, not to general economic conditions, but rather to public pension plans.



Often this interpretation of events hides an agenda designed to eliminate the defined benefit plan. To that end, we must all be mindful that every action board members take will be subject to public scrutiny and must measure up to the fiduciary standards required of those who are charged with safeguarding pension benefits. Otherwise, we simply give more ammunition to those who advocate for the abolition of defined benefit plans.

Acting prudently does not mean that we still do not face significant financial challenges. However, those challenges will not be met by replacing the existing structure with a less secure plan that is subject to the same pressures. It is irrefutable that the

performance of the capital markets dictates the overall well-being of public pension systems. The same impact of investment performance determines the security of defined contribution plans. Massachusetts has aggressively revised the benefits available to recent hires to recognize demographic changes and long term trends, adopted the strongest governance and disclosure regimen for retirement systems and vendors in the nation, and made appropriations according to prudent and realistic funding schedules based on conservative actuarial valuations. As Chairman of PERAC, I am proud that the Commission has played a role in preserving and protecting our pension plan and look forward to continuing to fulfill that role on behalf of public employees, retirees, and beneficiaries for many years to come.

I am also proud of the work that the Commission has done this past year and would like to acknowledge the leadership and wisdom Mr. Connarton provides as our Executive Director. But more importantly, I would like to acknowledge the hard work and effort that all the staff gives on a daily basis. The Commission is very fortunate to have such dedicated people who always give their best.

Philip Y. Brown

A good example of the results of that effort is the new PROSPER system, which the Commission is excited to roll out. After a lengthy development process we are now up and running in the Compliance and Disability portals. By the end of the 1st Quarter 2018, the 91A and Finance elements will be in place.

Our experience to date confirms the wisdom of embarking on this course, as nearly all retirement board members and administrators have taken the steps to access the portal. This enables the member to receive up-to-date reports on the status of various forms that he or she must file, as well as to enroll for education courses, monitor the board's workload, and sign and submit procurement related documentation. For administrators, the program provides instantaneous reporting on the status of various tasks that must be performed, assures that submissions to PERAC are accurate and comprehensive, and enables easy access to PERAC instructional materials.

We also are trying to improve our outreach. To this end the Executive Director and staff has scheduled three one day sessions for administrators, staff and board members in the coming months.

Finally, we continue to work to bring clarity, uniformity, transparency, and fairness to the administration of Chapter 32. In the course of each year many retirement-related decisions are made by the Contributory Retirement Appeals Board (CRAB) as well as the courts. The Supreme Judicial Court has weighed in on pension forfeiture, regular compensation, and disability, as well as other pension matters.

We would like to draw attention to a CRAB decision that relates to PERAC's authority. On November 18, 2016 CRAB determined that "memoranda issued by PERAC to retirement boards are binding on the boards." *Grimes v. Malden Ret. Bd. & PERAC*, CR-15-5 (CRAB 2016). CRAB states:

Retirement boards must follow PERAC's directives because of the statutory grant of power to PERAC to issue such directives in order to ensure that the more than one hundred retirement systems in the Commonwealth operate efficiently and apply uniform rules and policies.

The Division of Administrative Law Appeals (DALA) applied this principle in *O'Leary v. Lexington Ret. Bd.*, and *PERAC*, CR-15-30 (DALA 2016) which dealt with the Lexington Retirement Board (LRB) assertion that it was not bound by PERAC's memoranda.

DALA rejected that argument stating: "While the Board is free to challenge PERAC's interpretation of Chapter 32 that it memorializes in a memorandum, it cannot simply ignore PERAC's memoranda."

In issuing these memoranda, PERAC seeks to ensure that there is uniform application of the complex provisions of Chapter 32 as set forth and as interpreted by DALA, CRAB, and the courts. We consider the positions of all affected parties, as far as practicable, and encourage boards to provide input regarding existing as well as prospective memoranda.

In conclusion, I want to say it is with deep sadness that the Commission has dedicated this Report to Ken Donnelly, in whose passing we have lost our most faithful defender of the interests of public employees, retirees, and their beneficiaries. Continuing Ken's fight for those interests is, perhaps, the best way for us to be faithful to his memory.

Sincerely,



Philip Y. Brown
Chairman